Habitat for Humanity Saint Louis and Affiliates

Combined Financial Statements
(With Supplementary Information)
and Independent Auditor's Report

December 31, 2015 and 2014

CohnReznick
Accounting • Tax • Advisory

Habitat for Humanity Saint Louis and Affiliates

Index

Independent Auditor's Report

Board of Directors
Habitat for Humanity Saint Louis and Affiliates
St. Louis, MO

Report on Combined Financial Statements

We have audited the accompanying combined financial statements of Habitat for Humanity Saint Louis and its affiliates, which comprise the combined statements of financial position as of December 31, 2015 and 2014, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Saint Louis and its affiliates as of December 31, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combined statements of functional expenses on pages 30 and 31 are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

CohnReznick LLP

Chicago, Illinois
June 24, 2016

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Financial Position
December 31, 2015 and 2014

Assets

	2015	2014
Current assets		
Cash and cash equivalents	$ 109,697	$ 346,350
Restricted cash	244,691	428,577
Investments	211,013	447,041
Pledges receivable	48,164	188,723
Grants receivable	23,634	184,698
Other receivables	33,553	36,897
Home construction and inventory	1,166,084	980,807
ReStore inventory	220,169	182,994
Prepaid expenses and other assets	168,806	161,485
Total current assets	2,225,811	2,957,572
Fixed assets		
Property and equipment, net	1,789,471	1,902,487
Long-term assets		
Mortgages receivable, net	1,497,346	1,269,425
Investments in new markets tax credit programs	6,405,498	12,906,239
Capitalized costs, net	82,014	231,479
Total long-term assets	7,984,858	14,407,143
Total assets	$ 12,000,140	$ 19,267,202

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Financial Position
December 31, 2015 and 2014

Liabilities and Net Assets (Deficit)

	2015	2014
Current liabilities		
Line of credit	$ 1,690,428	$ 1,636,698
Current portion of long-term debt	30,000	245,632
Accounts payable and accrued expenses	847,306	781,888
Deferred revenue	213,636	228,553
Total current liabilities	2,781,370	2,892,771
Deposits liability		
Mortgage escrows	248,436	276,415
Long-term liabilities		
Long-term debt	9,241,010	17,507,699
Total liabilities	12,270,816	20,676,885
Net assets (deficit)		
Unrestricted net assets (deficit)		
Undesignated	(607,496)	(2,152,045)
Board designated	211,013	440,451
Total unrestricted net assets (deficit)	(396,483)	(1,711,594)
Temporarily restricted net assets	125,807	301,911
Total net assets (deficit)	(270,676)	(1,409,683)
Total liabilities and net assets (deficit)	$ 12,000,140	$ 19,267,202

See Notes to Combined Financial Statements.

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Activities
Year Ended December 31, 2015

	Unrestricted	Temporarily restricted	Total
Operating support and revenue			
Contributions and sponsorships	$ 1,873,202	$ 180,943	$ 2,054,145
Grants	563,200	-	563,200
Sales to homeowners	1,376,000	-	1,376,000
ReStore retail sales	1,009,209	-	1,009,209
Donated property, materials and services	1,041,320	261,594	1,302,914
Fundraising and special events revenue (net of expenses of $6,424)	27,266	-	27,266
Investment income	92,390	-	92,390
Other income	114,286	-	114,286
Net assets released from restrictions	618,641	(618,641)	-
Total operating support and revenue	6,715,514	(176,104)	6,539,410
Operating expenses			
Program services:			
Home construction and construction support	3,769,758	-	3,769,758
ReStore retail operations	2,376,438	-	2,376,438
Total program services	6,146,196	-	6,146,196
Supporting activities:			
Management and general	748,478	-	748,478
Fundraising	338,808	-	338,808
Total supporting activities	1,087,286	-	1,087,286
Total operating expenses	7,233,482	-	7,233,482
Nonoperating items			
Debt forgiveness income	2,206,595	-	2,206,595
Amortization expense	(373,516)	-	(373,516)
Total nonoperating items	1,833,079	-	1,833,079
Change in net assets (deficit)	1,315,111	(176,104)	1,139,007
Net assets (deficit) - beginning of year	(1,711,594)	301,911	(1,409,683)
Net assets (deficit) - end of year	$ (396,483)	$ 125,807	$ (270,676)

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Activities
Year Ended December 31, 2014

	Unrestricted	Temporarily restricted	Total
Operating support and revenue			
Contributions and sponsorships	$ 876,982	$ 1,058,688	$ 1,935,670
Grants	545,015	-	545,015
Sales to homeowners	1,646,164	-	1,646,164
ReStore retail sales	1,008,814	-	1,008,814
Donated property, materials and services	981,159	240,048	1,221,207
Fundraising and special events revenue (net of expenses of $5,014)	35,544	-	35,544
Investment income	142,330	-	142,330
Other income	93,422	-	93,422
Net assets released from restrictions	1,220,265	(1,220,265)	-
Total operating support and revenue	6,549,695	78,471	6,628,166
Operating expenses			
Program services:			
Home construction and construction support	3,888,301	-	3,888,301
ReStore retail operations	2,215,543	-	2,215,543
Total program services	6,103,844	-	6,103,844
Supporting activities:			
Management and general	755,343	-	755,343
Fundraising	361,356	-	361,356
Total supporting activities	1,116,699	-	1,116,699
Total operating expenses	7,220,543	-	7,220,543
Change in net assets (deficit)	(670,848)	78,471	(592,377)
Net assets (deficit) - beginning of year	(1,040,746)	223,440	(817,306)
Net assets (deficit) - end of year	$ (1,711,594)	$ 301,911	$ (1,409,683)

See Notes to Combined Financial Statements.

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Contribution and sponsorship receipts	$ 1,389,289	$ 1,325,579
Grant receipts	589,347	622,031
Sales to homeowners receipts	475,857	683,888
ReStore retail receipts	1,008,424	1,030,309
Net fundraising and special events receipts	27,266	35,944
Investment receipts	101,144	144,327
Other operating receipts	114,286	92,259
Total receipts	3,705,613	3,934,337
Salaries and wages paid	(2,057,899)	(2,086,411)
Home construction costs paid	(1,326,999)	(1,542,102)
Cost of merchandise sales	(1,648)	(21,476)
New markets tax credit transaction costs paid	(92,373)	(84,287)
Committee expenses paid	(19,311)	(20,786)
Computer expenses paid	(67,319)	(59,108)
Facilities expenses paid	(27,216)	(264,668)
Insurance paid	(69,249)	(64,943)
Interest expense and service charges paid	(343,196)	(230,986)
Marketing and PR expenses paid	(107,443)	(117,972)
Administrative expenses paid	(191,056)	(183,131)
Professional fees paid	(12,489)	(6,787)
Total disbursements	(4,316,198)	(4,682,657)
Net cash used in operating activities	(610,585)	(748,320)

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from investing activities		
Purchase of investments	(20,800)	(187,950)
Proceeds from sale of investments	248,074	170,499
Distribution from NMTC investment	11,363	-
Purchases of property and equipment, net	-	(895)
Net cash provided by (used in) investing activities	238,637	(18,346)
Cash flows from financing activities		
Proceeds from line of credit, net	53,730	408,698
Proceeds from long-term debt	-	243,000
Principal payments on long-term debt	(102,321)	(48,659)
Net cash (used in) provided by financing activities	(48,591)	603,039
Net decrease in cash	(420,539)	(163,627)
Cash, beginning	774,927	938,554
Cash, end	$ 354,388	$ 774,927
Significant noncash investing and financing activities		
Investment in NMTC 2008	$ 2,408,937	$ -
Loan payable in NMTC 2008	(3,430,000)	-
Debt forgiveness in NMTC 2008	1,021,063	-
Investment in NMTC 2009	3,764,468	-
Loan payable in NMTC 2009	(4,950,000)	-
Debt forgiveness in NMTC 2009	1,185,532	-
	$ -	$ -

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Reconciliation of change in net assets (deficit) to net cash provided by operating activities		
Change in net assets (deficit)	$ 1,139,007	$ (592,377)
Adjustments to reconcile change in net assets (deficit) to net cash used in operating activities:		
Discount on home construction and inventory	34,363	(402,388)
Discount on mortgages receivable	410,349	407,146
Donated property, materials and services	(36,389)	17,172
Bad debt	122,027	-
Depreciation and amortization	578,454	227,577
Unrealized loss on investments	8,754	1,997
Debt forgiveness	(2,206,595)	-
Changes in assets and liabilities:		
Pledges receivable, net	138,532	(104,405)
Grants receivable, net	41,064	31,515
Other receivables, net	3,344	(3,875)
ReStore inventory	(786)	4,323
Home construction and inventory	(219,640)	321,593
Prepaid expenses	(7,321)	14,020
Mortgages receivable	(638,270)	(794,988)
Accounts payable and accrued expenses	65,418	79,474
Mortgage escrows	(27,979)	(605)
Deferred revenue	(14,917)	45,501
Net cash used in operating activities	$ (610,585)	$ (748,320)

See Notes to Combined Financial Statements.

Note 1 - Organization

Habitat for Humanity Saint Louis ("Habitat") was organized as a non-profit organization in the state of Missouri and is associated with Habitat for Humanity International, Inc. Habitat has received tax exempt status under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1954 to construct affordable, decent housing for sale to low-income families at cost and to build communities by encouraging existing homeowners to upgrade and improve their property.

On July 10, 2014, HFHSL Community Housing Development Organization ("HFHSL CHDO") and on January 27, 2015, HFHSL Community Housing Development Corporation II ("HFHSL CHDC II"), were formed in the State of Missouri.

HFHSL CHDO and HFHSL CHDC II are Community Housing Development Organizations ("CHDO's") sanctioned by the U.S. Department of Housing and Urban Development's ("HUD") HOME Program, whose purpose is to assist in developing community low-income housing. CHDO's receive certain priority and eligibility for HUD grants.

These combined financial statements include the accounts of Habitat for Humanity Saint Louis, HFHSL Community Housing Development Organization and HFHSL Community Housing Development Corporation II (collectively, the "Organization"). Inter-company activity is eliminated in combination.

The primary source of the Organization's revenues is contributions and sponsorships received from the general public, corporations and religious organizations. Habitat also operates two retail hardware stores (the "ReStores") with sales to the general public. Inventory is primarily donated, with the sale proceeds used to carry out the Organization's mission.

The Organization's activities are primarily comprised of the following:

Program services
Home construction, financing and support - Includes all home construction costs such as materials, supplies, labor and overhead, as well as financing certain mortgages for the homeowners. This programming also includes construction supporting costs such as real estate development, volunteer mobilization and family selection services.

ReStore operations - Includes salaries, utilities and overhead necessary to operate two discount and recycled materials hardware stores. This programming also includes the estimated value of donated merchandise sold in the stores.

Supporting activities
Management and general - Includes the functions necessary to maintain an equitable employment program; ensure an adequate working environment; provide coordination and articulation of the Organization's program strategy; secure proper administrative functioning of the Board of Directors; and manage the combined financial and budgetary responsibilities of the Organization.

Fundraising - Provides the structure necessary to encourage and secure combined financial support for the Organization through grants, contributions and special events.

Note 2 - Summary of significant accounting policies

Basis of presentation

The Organization is required to report information regarding its combined financial position and activities according to three classes of net assets: unrestricted net assets temporarily restricted net assets and permanently restricted net assets. Additionally, information is required to segregate program service expenses from support expenses. Support expenses include management and general and fundraising expenses.

Revenue recognition

Contributions and grants received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions of assets other than cash are recorded at their estimated fair market value.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions received with donor imposed restrictions that are met in the same year as received are reported as unrestricted revenues. The expiration of temporary restrictions on net assets (i.e., the donor imposed stipulated purpose has been fulfilled, or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Unconditional pledges receivable that are expected to be collected within a year are recorded at their net realizable value when the donor makes the promise. Unconditional pledges receivable that are expected to be collected in the future years are recorded at the present value of their estimated future cash flows.

Grants that are received prior to recognition of revenue are recorded as deferred revenue.

Sales to homeowners represent the sale of homes built or rehabilitated by the Organization. The resulting mortgages are noninterest-bearing and have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages. The Organization recognizes income from the sales to homeowners on the completed contract method when home closings occur.

Donated property, materials and services

Donated materials are valued at the lower of estimated donor cost or fair value at the date of contribution. Certain professional services are donated to the Organization by various organizations. Since these donated services meet the criteria for recognition, as stated by generally accepted accounting principles, they are recorded at fair value at the date of donation. In addition, a substantial number of volunteers have donated a significant amount of time to the Organization. These donated services have not been recognized as contributions in the combined financial statements since the recognition criteria, as stated by generally accepted accounting principles, were not met. Some donated materials and services are designated by the donor for specific construction projects, and accordingly, are recorded as temporarily restricted.

Donated investments are recorded at the fair market value as of the date of the contribution. Gains and losses on investments and other assets or liabilities, are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation or by law.

Net assets

The Organization classifies net assets as unrestricted, temporarily restricted or permanently restricted.

Unrestricted net assets of the Organization are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets of the Organization result (a) from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Organization pursuant to those stipulations.

Permanently restricted net assets of the Organization result (a) from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations and (c) from reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations. The Organization has not received any permanently restricted contributions. There are no permanently restricted net assets.

Use of estimates
The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair value of assets
Pursuant to the accounting guidance for fair value measurements and its subsequent updates, fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Organization considers the principal or most advantageous market in which it would transact, and it considers assumptions that market participants would use when pricing the asset or liability.

The accounting guidance for fair value measurement also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The fair value hierarchy is as follows:

- Level 1 - Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level 1 includes listed equities, securities and listed derivatives.

- Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

- Level 3 - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significant of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The following table summarizes the valuation of the Organization's investments that are recorded at fair value according to the hierarchy levels at December 31, 2015 and 2014:

2015	Level 1	Level 2	Level 3
Short-term investments	$ 211,013	$ -	$ -

2014	Level 1	Level 2	Level 3
Short-term investments	$ 447,041	$ -	$ -

Investments
The Organization's short-term investments consist of various securities. The Organization's short-term investments are classified as securities and are carried at fair value determined based on Level 1 inputs as of the date nearest the balance sheet date.

The Organization's long-term investments are investments in entities related to the New Markets Tax Credit ("NMTC") program. The NMTC investments are accounted for using the equity method. Under the equity method, the initial investment is recorded at cost and is subsequently increased or decreased by its share of income or loss and increased or decreased by the amount of any contributions made or distributions received.

Cash and cash equivalents
The Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Inventory
Inventory primarily consists of ReStore merchandise, construction in progress, homes available for sale, and land and buildings occupied and subject to lease with the option to purchase.

ReStore inventory consists of materials and is stated at donated value. Any purchased inventory is stated at the lower of cost or market value.

All direct material and equipment costs and indirect costs related to home construction are recorded as construction in progress inventory. When revenue from the sale of a home is recognized, the corresponding costs are expensed in the combined statement of activities and changes in net assets as program services.

Homes are transferred from construction in progress to homes available for sale once completed, with the accrued impairment for the sale of the mortgage and the expected loss on the sale of the property. Homes available for sale also includes foreclosed homes mortgage balances which are recorded at the unpaid mortgage balance at the time of foreclosure.

Capitalization and depreciation
Property and equipment are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. Assets are depreciated over their estimated service lives. The estimated service lives of the assets for depreciation purposes may be different than their actual economic useful lives.

Capitalized costs
Guarantee fees paid in conjunction with the NMTC investments are capitalized and amortized over seven years, the NMTC guarantee period.

Impairment of long-lived assets
The Organization reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment losses have been recognized during 2015 and 2014, respectively.

Income taxes
Habitat has applied for and received a determination letter from the Internal Revenue Service ("IRS") to be treated as a tax exempt entity pursuant to Section 501(c)(3) of the Internal Revenue Code and did not have any unrelated business income for the years ended December 31, 2015 and 2014. Due to its tax exempt status, Habitat is not subject to income taxes. They are required to file, and do file, tax returns with the IRS and other taxing authorities. The Forms 990, Return of Organization Exempt from Income Tax, are subject to examination by the IRS generally for three years after they were filed.

Advertising costs
Advertising costs are charged to operations when incurred.

Reclassifications
Reclassifications may have been made to the prior year balances to conform to the current year presentation. Such reclassifications were made from comparative purposes only, and do not restate prior year financial statements.

Note 3 - Cash and cash equivalents

The Organization maintains its cash reserve balances in several accounts. The cash reserve balances are insured by the Federal Deposit Insurance Corporation. At times, these balances may exceed the federal insurance limits; however, the Organization has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash reserve balances during the years ended December 31, 2015 and 2014.

Restricted cash consists of the following as of December 31, 2015 and 2014:

	2015	2014
Cash and cash equivalents held in checking and money market accounts designated by the board for specific purposes (Note 15)	$ 6,756	$ 21,108
Homeowner repair escrow	31,590	126,602
Restricted for New Markets Tax Credit expenses (Note 9)	206,345	280,867
	$ 244,691	$ 428,577

Note 4 - Investments

Investments are carried at fair value in accordance with generally accepted accounting principles. Investments consist of the following as of December 31, 2015 and 2014:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Equity mutual funds	$ 7,043	$ 21,133	$ 17,273	$ 48,363
Fixed income mutual funds	178,539	189,880	380,070	398,678
	$ 185,582	$ 211,013	$ 397,343	$ 447,041

Certain investments have been designated by the Board for specific purposes (see Note 15). Income (loss) on those investments includes the following for the years ended December 31, 2015 and 2014:

	2015	2014
Investment income from NMTC investments	$ 99,686	$ 123,889
Interest and dividend income	13,420	12,663
Unrealized loss on investments	(8,754)	(1,997)
Realized (loss) gain on investments	(11,962)	7,775
	$ 92,390	$ 142,330

As of December 31, 2015 and 2014, investment fees of approximately $4,117 and $6,044, respectively, are included in management and general expenses on the statement of activities.

Note 5 - Pledges receivable

Pledges, or promises to give, consist of contributions restricted for the purpose of building a home. At December 31, 2015 and 2014, pledges receivable were $48,164 and $188,723, respectively, for house sponsorships. The promises to give are unconditional and are expected to be collected within one year.

Note 6 - Grants receivable and grant revenue

Grants receivable as of December 31, 2015 and 2014 consists primarily of reimbursement type grants for home construction costs:

	2015	2014
Affordable Housing Trust Fund	$ 16,655	$ 10,800
City of St. Louis HOME Funds	6,979	3,260
St. Louis County HOME Funds	-	31,007
Jefferson Solid Waste	-	19,631
The Home Depot Foundation	-	120,000
	$ 23,634	$ 184,698

Grant revenue during 2015 and 2014 consists of the following:

	2015	2014
Affordable Housing Trust Fund	$ 25,000	$ 81,000
City of St. Louis HOME Funds	345,000	417,652
St. Louis County HOME Funds	193,200	-
Jefferson Solid Waste	-	20,000
Softwood Lumber	-	26,363
	$ 563,200	$ 545,015

Note 7 - Mortgages receivable

Mortgages receivable consist of non-interest bearing mortgages secured by real estate, receivable in monthly installments through years ranging to 2047. Mortgage receivables include those mortgages repurchased from CitiMortgage upon homeowner default and second promissory notes on homes under the zero-equivalent mortgage method. Each mortgage is discounted to the value it could be sold to a third party lender.

The Organization participates in a zero-equivalent mortgage method for financing homes. Under this method, the lending bank charges the homebuyer a below-market rate of interest. The monthly payments the homebuyer makes to the lending bank are the same as if the Organization was providing a zero-percent loan directly to the homebuyer. The Organization sells homes at a reduced price in order for the mortgage with interest to be equivalent to the mortgage with no interest at a normal sale price. The Organization holds the second mortgage on each home which will be forgiven over the life of the mortgage.

Mortgages receivable are presented net of unamortized discount resulting from the imputation of interest as follows:

	2015	2014
Mortgages receivable at face value	$ 3,956,576	$ 3,318,306
Less: Reserve	(2,082,833)	(1,737,653)
Less: Allowance for doubtful accounts	(376,397)	(311,228)
Long-term portion of mortgages receivable	$ 1,497,346	$ 1,269,425

Note 8 - Home construction and inventory

Home construction and inventory for the years ended December 31, 2015 and 2014 consists of the following:

	2015	2014
Land	$ 257,243	$ 245,935
Construction in progress	328,726	97,446
Leased and available-for-sale homes	580,115	637,426
	$ 1,166,084	$ 980,807

Leases for homes contain purchase options, which allow the lessee to purchase the property with an interest-free loan payable over 20 to 39 years. Leased and available-for-sale homes are valued in inventory at the lower of cost or net realizable proceeds after all expected selling costs. During 2015, there were eight leased and available-for-sale homes in inventory. Five are leased as rent-to-own and the remaining three homes are vacant. During 2014, there were 10 leased and available-for-sale homes in inventory. Six were leased as rent-to-own and the remaining four homes were vacant.

Note 9 - Investments in New Markets Tax Credit programs

Habitat has entered into four transactions involving New Markets Tax Credit ("NMTC") financing. Under the NMTC structure, Habitat makes investments in a leverage lender, whose sole purpose is to lend to an investment fund. The investment fund entity also receives capital contribution equity from private investors. The private investor receives tax credits in return for its contribution into the investment fund. The investment fund uses the loan from the leverage lender and the equity from the investors to make an investment in a community development entity ("CDE"). All of the proceeds received by the CDE are then loaned to Habitat.

Investment in HFHI-SA Leverage II, LLC

In 2008, Habitat made an investment in HFHI-SA Leverage II, LLC in the amount of $2,420,299, plus transaction costs of $210,776. Habitat is a 50% member in HFHI-SA Leverage II, LLC. Habitat recorded its investment at cost plus transaction costs. In return for its investment, Habitat received a loan from MBS UI Sub-CDE VIII in the amount of $3,430,000. As of December 31, 2015 and 2014, Habitat's investment in HFHI-SA Leverage II, LLC is $-$0 and $2,631,075, respectively.

In June 2015, USB NMTC Fund 2008-2 LLC (the "2008 Fund") and the upstream effective owner of MBS-UI Sub CDE VIII, LLC (holder of a promissory note due from Habitat) exercised its put option. Under the terms of the put option agreement, HFHI-SA Leverage II, LLC purchased the ownership interest of the 2008 Fund. Exercise of the option effectively extinguished Habitat's outstanding debt owed to the 2008 Fund and resulted in $1,021,063 in debt forgiveness income.

Investment in HFHSTL Leverage Lender, LLC
In 2009, Habitat made an investment in HFHSTL Leverage Lender, LLC in the amount of $3,764,468, plus transaction costs of $105,198. Habitat is the 99.99% member of HFHSTL Leverage Lender, LLC. Habitat recorded its investment at cost plus transaction costs. In return for its investment, Habitat received a loan from USBCDE Sub-CDE XXXVII, LLC in the amount of $4,950,000.

In December 2015, USBCDE Investment Fund XXXVII, LLC (the "2009 Fund") and the upstream effective owner of USBCDE Sub-CDE XXXVII, LLC (holder of a promissory note due from Habitat) exercised its put option. Under the terms of the put option agreement, HFHSTL Leverage Lender, LLC purchased the ownership interest of the 2009 Fund. Exercise of the option effectively extinguished Habitat's outstanding debt owed to the 2009 Fund and resulted in $1,185,532 in debt forgiveness income.

In 2011, Habitat made an additional investment in HFHSTL Leverage Lender, LLC in the amount of $4,772,293, plus transaction costs of $141,362. Habitat recorded its investment at cost plus transaction costs. In return for its investment, Habitat received a loan from CBKC Subsidiary CDE X, LLC in the amount of $5,880,000.

According to the option agreement, U.S. Bancorp Community Development Corporation ("USB"), who owns all of the membership interest in Habitat STL-CBKC Investment Fund, LLC, which is the 99.99% owner of CBKC Subsidiary CDE X, LLC, has an option to sell its ownership interest in Habitat STL-CBKC Investment Fund LLC to HFHSTL Leverage Lender, LLC. The put option may be exercised by USB commencing in July 2018. If USB does not exercise the put option, HFHSTL Leverage Lender, LLC has the option to purchase (call), at any time during the 12-month period following the expiration of the put option, USB's ownership interest. Exercise of this option will effectively allow Habitat to extinguish its outstanding debt owed to CBKC Subsidiary CDE X, LLC.

As of December 31, 2015 and 2014, Habitat's investment in HFHSTL Leverage Lender, LLC is $4,913,655$4,913,655 and $8,783,321, respectively.

Investment in HFHI-CCML Leverage I, LLC
In 2012, Habitat made an investment in HFHI-CCML Leverage I, LLC in the amount of $1,448,866, plus transaction costs of $42,977. Habitat is the 20% member of HFHI-CCML Leverage I, LLC. Habitat recorded its investment at cost plus transaction costs. In return for its investment, Habitat received a loan from CCM Community XVII LLC in the amount of $1,880,000. As of December 31, 2015 and 2014, Habitat's investment in HFHI-CCML Leverage I, LLC is $1,491,843.

In December 2019, USBCDE Investment Fund XVII, LLC (the "2012 Fund") and the upstream effective owner of CCM Community XVII LLC (holder of a promissory note due from Habitat) is expected to exercise its put option. Under the terms of the put option agreement, HFHI-CCML Leverage I, LLC is expected to purchase the ownership interest of the 2012 Fund. If the put option is not exercised, HFHI-CCML Leverage I, LLC has a call option to purchase the 100% ownership interest of the 2012 Fund at fair market value. Exercise of the option will effectively allow Habitat to extinguish its outstanding debt owed to the 2012 Fund.

Interest income earned from the investments and interest expense incurred from the loans is as follows for the years ended December 31, 2015 and 2014:

	2015	2014
Interest income	$ 99,686	$ 123,889
Interest expense	(99,704)	(123,920)
Net interest	$ (18)	$ (31)

Management expects the put option for each of its NMTC transactions to be exercised at the end of the compliance period. If that does occur, management anticipates revenue from the forgiveness of debt as follows:

	Revenue
2019	$ 966,345
2020	388,157
Total	$ 1,354,502

Note 10 - Property and equipment

Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Property and equipment as of December 31, 2015 and 2014 is comprised of the following:

	Useful Life	2015	2014
Land	N/A	$ 320,000	$ 320,000
Building and improvements	10 - 40 years	1,925,354	1,925,354
Equipment	3 - 39 years	697,967	687,967
Vehicles	5 years	189,710	199,710
Computer software	3 years	73,903	73,903
Total property and equipment		3,206,934	3,206,934
Less: Accumulated depreciation		(1,417,463)	(1,304,447)
Property and equipment, net		$ 1,789,471	$ 1,902,487

Depreciation expense for the years ended December 31, 2015 and 2014 was $113,016 and $122,987, respectively.

Note 11 - Capitalized costs

The guarantee fees associated with the NMTC transactions have been capitalized and amortized over the seven-year guarantee period. As of December 31, 2015 and 2014, guarantee fees amounted to $219,275 and $732,130, and accumulated amortization amounted to $137,261 and $500,651, respectively. During the year ending December 31, 2015, amortization expense totaled $465,438, of which $373,516 relates to the write-off of capitalized costs and closing costs in the 2008 and 2009 NMTC transactions. During the year ending December 31, 2014, amortization expense was $104,590.

Estimated amortization expense for the ensuing years is as follows:

Year	Amount
2016	$ 31,325
2017	31,325
2018	17,783
2019	1,581
	$ 82,014

Note 12 - Line of credit

During 2012, and as amended in 2013, Habitat opened a revolving line of credit in the amount of $2,000,000 with Central Bank of St. Louis, formerly known as First National Bank. The line of credit bears interest at a variable rate equal to Central Bank's prime rate, which was 4.5% at December 31, 2015 and 2014, plus 1%. The interest rate is subject to a minimum of 5.50%. Interest-only payments are due monthly through maturity.

Habitat has entered into modification agreements with Central Bank to extend the maturity date to July 10, 2016. At this time, all outstanding principal and unpaid interest is due. The line of credit is secured by Habitat's building and assets. Habitat had borrowings outstanding of $1,690,428 and $1,636,698 of December 31, 2015 and 2014, respectively.

Note 13 - Long-term debt

Long-term debt at December 31, 2015 and 2014 consists of the following:

	2015	2014
St. Louis Housing Authority		
The loan in the original amount of $210,000, dated August 3, 2010, is held by St. Louis Housing Authority. The loan is noninterest-bearing. Principal payments in the amount of $2,500 are due monthly beginning January 1, 2012. The loan matures January 1, 2019. The loan is unsecured.	$ 59,210	$ 89,210
IFF NMTC Loan		
The loan in the original amount of $1,208,800, dated November 30, 2011, is held by IFF. The loan bears interest at 5.875%. The interest rate is recalculated on December 1, 2018, November 30, 2028 and December 1, 2028. Interest-only payments are due monthly until December 1, 2018. Beginning December 1, 2018, principal and interest payments are due monthly in an amount that amortizes the principal balance over 180 months. The loan matures on December 1, 2028. The loan is secured by Habitat's building and an assignment of rents.	1,208,800	1,208,800
IFF Equipment Loan		
The loan in the original amount of $100,000, dated April 11, 2013, is held by IFF. The loan bore interest at 4.5%. Beginning July 1, 2013, principal and interest payments were due monthly in amounts that amortize the principal balance over 60 months. The loan matures on July 1, 2018. As of December 31, 2015, the loan has been paid in full.	-	72,321

	2015	2014
MBS UI Sub-CDE VIII The loan in the amount of $3,430,000, dated December 18, 2008, was held by MBS-UI Sub-CDE VIII, LLC. The loan bore interest at 0.706%. Interest-only payments were due semi-annually until December 2015. Commencing on December 18, 2015, semi-annual principal and interest payments in the amount of $208,242 were to be due until maturity. The loan matures on December 18, 2023. The loan is secured by the assets of the 2008 NMTC project. The loan is also guaranteed by a related party if an event of recapture occurs. The loan had a put option feature that was exercised in June 2015 (Note 9), and a portion of the debt was forgiven.	-	3,430,000
USBCDE SUB-CDE XXXVII, LLC The loan in the original amount of $4,950,000, dated December 15, 2009, was held by USBCDE SUB-CDE XXXVII, LLC. The loan bore interest at 0.76057%. Interest-only payments were due semi-annually until December 2016. Commencing on December 15, 2016, semi-annual principal and interest payments in the amount of $301,254 were to be due until maturity. The loan matures on December 15, 2024. The loan is secured by the 2009 NMTC project and bank accounts. The loan is also guaranteed by a related party if an event of recapture occurs. The loan had a put option feature that was exercised in December 2015 (Note 9), and a portion of the debt was forgiven.	-	4,950,000

	2015	2014
<u>CBKC Subsidiary CDE X, LLC</u>		
The loan in the amount of $5,880,000, dated June 17, 2011, is held by CBKC Subsidiary CDE X, LLC. The loan bears interest at 0.808942%. Interest-only payments are due semi-annually until December 5, 2018. Commencing on December 5, 2018, semi-annual principal and interest payments in the amount of $380,277 are due until maturity. The loan matures on June 16, 2026. The loan is secured by the operating account held by U.S. Bank National Association, the guaranty account held by the lender and the 2011 NMTC project. The loan is also guaranteed by a related party if an event of NMTC recapture occurs. The loan has a put option feature that is exercisable in July 2018 (Note 9).	5,880,000	5,880,000
<u>CCM Community Development XVII LLC</u>		
The loan in the amount of $1,880,000, dated April 12, 2012, is held by CCM Community Development XVII LLC. The loan bears interest at 0.7707%. Interest-only payments are due semi-annually until May 5, 2020. Commencing on May 5, 2020, semi-annual principal and interest payments in the amount of $114,467 are due until maturity. The loan matures on April 11, 2028. The loan is secured by the operating account held by U.S. Bancorp, the guaranty account held by the lender and the 2012 NMTC Project. The loan is also guaranteed by a related party if an event of NMTC recapture occurs. The loan has a put option feature that is exercisable in December 2019 (Note 9).	1,880,000	1,880,000

	2015	2014
Lookaway Summit		
On December 29, 2014, Habitat purchased 18 parcels of real property from an individual in the amount of $243,000. The loan is noninterest-bearing and payments are due upon the closing of homes subsequently built and sold on each parcel of land. The loan matures on December 31, 2016, which has been extended to March 1, 2017, at which time any remaining balance is due.	243,000	148,500
Total	9,271,010	17,510,331
Less: Current maturities	(30,000)	(48,659)
Long-term debt	$ 9,241,010	$ 17,461,672

The following is a schedule of estimated future payments as of December 31, 2015:

Year	Amount
2016	$ 30,000
2017	272,210
2018	366,071
2019	770,195
2020	993,840
Thereafter	6,838,694
	$ 9,271,010

Note 14 - Temporarily restricted net assets

Temporarily restricted net assets as of December 31, 2015 and 2014 are subject to the following restrictions:

	2015	2014
Construction projects	$ 77,819	$ 180,403
Other	47,988	121,508
	$ 125,807	$ 301,911

Net assets released from restrictions during 2015 and 2014 consist of the following:

	2015	2014
Construction projects	$ 533,775	$ 1,208,298
Other	84,866	11,967
	$ 618,641	$ 1,220,265

Note 15 - Board designated net assets

Unrestricted net assets have been designated for specific purposes, and certain assets have been set aside accordingly as follows at December 31, 2015 and 2014:

	2015	2014
Investments	$ 211,013	$ 440,451

These assets have been set aside for the following board designated net assets:

	2015	2014
Operating reserve fund	$ 206,013	$ 303,978
Capacity reserve fund	5,000	136,473
	$ 211,013	$ 440,451

Note 16 - Related party transactions

Habitat has a nonbinding covenant with Habitat for Humanity International, Inc. ("HFHI") to make an annual voluntary tithe payment to HFHI. In prior years, Habitat made tithe payments in the amount of $1,000 for each house sold. An additional tithe payment is required for each house sponsored by a specific donor.

In 2013, HFHI implemented its Stewardship and Organizational Sustainability Initiative ("SOSI"), which requires payment from affiliates of annual fees based upon the size of the individual affiliate. The annual fee required of Habitat is $25,000, and is in addition to any voluntary tithe.

In 2015 and 2014, Habitat paid $25,000 and $25,000, respectively, for the previous year's SOSI commitment. In 2015 and 2014, Habitat paid tithe payment in the amount of $5,000 and $5,000, respectively, for 2014 and 2013 commitments. Tithes payable to HFHI are included in accounts payable and accrued expenses on the balance sheet.

Note 17 - Operating lease

On March 27, 2013, Habitat entered into a lease agreement to open a second ReStore location. The lease commenced on June 1, 2013 and terminates on May 31, 2018, with two five-year options to renew. The lease provides for annual base rent, a portion of which is donated back to Habitat each year on June 1, and monthly base rent payable by Habitat.

Minimum future rents to be incurred, paid and donated on the lease agreement for the next five years are as follows:

Year	Monthly Base Rent	Donated Rent	Total Annual Base Rent
2015	$ 183,689	$ 223,502	$ 407,191
2016	207,715	199,476	407,191
2017	224,491	182,700	407,191
2018	95,635	74,028	169,663
Total	$ 711,530	$ 679,706	$ 1,391,236

Note 18 - Lease agreements

The Organization leases some of its properties from time-to-time. Although the Organization is a for-sale housing program, certain situations may arise where a property may be temporarily leased before it is sold. Most situations involve a lease-to-own or option-to-purchase agreement, but others may be only a rental situation for a fixed or renewable term.

During 2015, Habitat was receiving lease payments on five homes, of which four are expected to be sold within the next year. During 2014, Habitat was receiving lease payments on six homes, of which four was subsequently sold.

Note 19 - Mortgages sold with recourse

Prior to 2002, Habitat sold mortgages receivable with recourse to the Missouri Housing Development Commission. Habitat has guaranteed payment of the mortgage loans and in the event of any loan default Habitat will replace the non-performing loan with a performing loan or will buy back the non-performing loan at par. As of December 31, 2015 and 2014, the uncollected balances remaining on the mortgages totaled $31,410 and $42,056, respectively.

Note 20 - Commitments and contingencies

The purchase option agreement when a home is sold contains a provision that if the home is sold within 10 years of the initial date of the lease agreement, the Organization has the right to receive a certain percentage of the gain on the sale of the home. The percentage ranges from 100% if sold during the first year to 10% if sold in the 10th year.

The Organization provides a limited warranty to homeowners for all work done and materials provided in the construction of the home. This warranty is for one year from the date the buyer took occupancy, including the buyer's lease term. During this time, upon written notice from the purchaser, the Organization will repair or replace substantial defects free of charge. However, the Organization has the right to use the funds in the major repair fund (a portion of each mortgage payment is allocated to this escrow account). Based on past experience, management has determined no reserve is needed for warranties.

Note 21 - Employee benefit plan

Habitat implemented a SIMPLE-IRA plan in 1998. An employee is eligible for the plan if $2,400 of wages has been earned in any prior year. The plan provides for a deferral of compensation and an employer matching contribution, subject to certain limitations. During the years ended December 31, 2015 and 2014, Habitat's contribution to the plan amounted to $36,154 and $38,934, respectively.

Note 22 - Subsequent events

Events that occur after the balance sheet date but before the combined financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying combined financial statements. Subsequent events which reflect significant matters but which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Organization through June 24, 2016 (the date the financial statements were available to be issued) and concluded that no additional subsequent events, other than described below, have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

Management is in the process of merging HFHSL CHDO and HFHSL CHDC II into a single CHDO, which will streamline financial statement reporting as well as grant compliance and operations.

Supplementary Information

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Functional Expenses
Year Ended December 31, 2015

	Program services			Supporting activities			
	Construction	ReStore operations	Total	Management and general	Fundraising	Total	Total
Salaries and wages	$ 728,600	$ 381,032	$ 1,109,632	$ 302,856	$ 224,174	$ 527,030	$ 1,636,662
Employee taxes and benefits	212,695	120,281	332,976	63,101	49,166	112,267	445,243
Home construction costs	1,528,337	-	1,528,337	150	-	150	1,528,487
Discount on mortgages	490,289	-	490,289	-	-	-	490,289
Impairment on inventory	99,206	-	99,206	-	-	-	99,206
Cost of merchandise sales	-	1,006,533	1,006,533	-	-	-	1,006,533
New market tax credit expenses	92,373	-	92,373	-	-	-	92,373
Bad debt	120,000	2,027	122,027	-	-	-	122,027
Committee expenses	6,017	-	6,017	12,607	687	13,294	19,311
Computer expenses	16,990	18,346	35,336	17,906	14,077	31,983	67,319
Depreciation and amortization	108,419	44,497	152,916	52,022	-	52,022	204,938
Facilities cost	8,040	664,962	673,002	29,353	-	29,353	702,355
Insurance	22,088	1,393	23,481	43,660	-	43,660	67,141
Interest expense and service charges	214,625	49,934	264,559	61,572	1,234	62,806	327,365
Marketing and public relations	54,791	16,000	70,791	649	36,003	36,652	107,443
Miscellaneous	28,654	6,415	35,069	12,603	3,540	16,143	51,212
Office expenses	7,531	9,647	17,178	9,176	3,410	12,586	29,764
Postage	1,891	59	1,950	972	946	1,918	3,868
Professional fees	161	-	161	134,950	-	134,950	135,111
Telephone	11,784	8,174	19,958	5,185	3,469	8,654	28,612
Travel and meals	7,265		7,265	316	-	316	7,581
Vehicle	10,002	47,138	57,140	1,400	2,102	3,502	60,642
	$ 3,769,758	$ 2,376,438	$ 6,146,196	$ 748,478	$ 338,808	$ 1,087,286	$ 7,233,482

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Functional Expenses
Year Ended December 31, 2014

	Program services			Supporting activities			
	Construction	ReStore operations	Total	Management and general	Fundraising	Total	Total
Salaries and wages	$ 744,681	$ 362,881	$ 1,107,562	$ 286,361	$ 252,413	$ 538,774	$ 1,646,336
Employee taxes and benefits	216,884	117,095	333,979	62,548	47,080	109,628	443,607
Home construction costs	1,841,379	1,150	1,842,529	-	-	-	1,842,529
Discount on mortgages	472,081	-	472,081	-	-	-	472,081
Impairment on inventory	18,446	-	18,446	-	-	-	18,446
Cost of merchandise sales	-	1,002,635	1,002,635	-	-	-	1,002,635
New market tax credit expenses	84,287	-	84,287	-	-	-	84,287
Bad debt	-	-	-	-	-	-	-
Committee expenses	2,347	-	2,347	17,324	1,115	18,439	20,786
Computer expenses	1,869	5,873	7,742	50,466	900	51,366	59,108
Depreciation and amortization	127,763	44,369	172,132	55,445	-	55,445	227,577
Facilities cost	5,059	536,711	541,770	40,581	-	40,581	582,351
Insurance	21,463	8,792	30,255	48,708	-	48,708	78,963
Interest expense and service charges	210,821	51,315	262,136	51,286	4,524	55,810	317,946
Marketing and public relations	61,421	23,107	84,528	669	38,775	39,444	123,972
Miscellaneous	40,295	5,697	45,992	7,935	5,330	13,265	59,257
Office expenses	7,796	8,901	16,697	7,779	3,347	11,126	27,823
Postage	2,277	25	2,302	1,137	1,358	2,495	4,797
Professional fees	-	-	-	116,788		116,788	116,788
Telephone	13,687	8,125	21,812	5,340	3,365	8,705	30,517
Travel and meals	3,128		3,128	920	261	1,181	4,309
Vehicle	12,617	38,867	51,484	2,056	2,888	4,944	56,428
	$ 3,888,301	$ 2,215,543	$ 6,103,844	$ 755,343	$ 361,356	$ 1,116,699	$ 7,220,543

See Independent Auditor's Report.

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